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# Strings Attached to Arts Funding: Panel Assessments of Theater Organizations through the Lens of Agency Theory

Ellen Loots 

Erasmus Universiteit Rotterdam, Rotterdam, The Netherlands

## ABSTRACT

Agency Theory deliberates the relationship between principals and agents, and the agency problems that originate in information asymmetries and goal conflicts. Through the lens of Agency Theory, with mixed methods, I investigate the decisions about funding of theatre organizations by governments, based on assessments by third parties. In two settings “artistic quality” is the major determinant of public support, to the detriment of criteria as participation, social objectives, efficiency and entrepreneurship. I argue that, next to previously recognized principal-agent relationships between governments and theatres, and governments and panels, a third relationship is very influential: between an arts field and panels.



## KEYWORDS


Agency theory; content analysis; econometric analysis; panel assessments; theater

## Introduction

In many countries, governments are strongly involved in supporting the arts based on the justifications that they are merit goods or generate positive externalities for society (Musgrave 1959; Netzer 1978; Throsby 1982). A challenge that governments face when developing support instruments relates to inducing organizations to comply with their policy goals. According to Towse (2010), this is a principal-agent problem, where governments (principals) must set up the right incentives to encourage arts organizations’ (agents) compliance with their goals. Strings are attached to arts funding (McDonald and Harrison 2002) and, when seeking support, arts organizations are increasingly required to make explicit what justifies their legitimacy (Herman 2019). At the same time, government subsidies to the arts have, in recent years, declined in terms of total contribution and contributions to individual organizations (Kirchner, Markowski, and Ford 2007; Zan et al. 2012; Bertelli et al. 2014), augmenting the challenges for nonprofit arts organizations (Arnold and Tapp 2003).

In many European countries, subsidies to arts organizations typically come in the form of direct support as a lump sum grant (Schuster 1996). Owing to the fact that government agencies have increasingly limited funds to distribute and many organizations request funding, a common practice of governments is to install selection procedures,

**CONTACT** Ellen Loots  [loots@eshcc.eur.nl](mailto:loots@eshcc.eur.nl)  Erasmus School of History Culture and Communication, Erasmus Universiteit Rotterdam, Rotterdam, 3000 DR, The Netherlands.

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executed by third parties of experts and/or peers. Because nonprofit arts organizations are largely dependent on public funding, third-party decision makers gain power as gatekeepers who control entry to an arts production environment and can exclude arts producers from it (Zan et al. 2012). In this manner, such third-party assessments could be manifestations of the power hierarchies that Bourdieu (1993) found to typifying symbolic fields as the arts: a limited number of actors possess the ability to impose criteria of evaluation, and thus the power to consecrate and eventually maximize the autonomy of a field. Hence, a common outcome of those selection procedures is that well-established organizations get repeatedly and disproportionately subsidized, at the expense of new organizations and art forms that have not got their foot in the door (Towse 2010; Zan et al. 2012).

In the present article, I study such a selection procedure through the lens of Agency Theory (Jensen and Meckling 1976). I argue that the government (as principal) confronts two agents: not only arts organizations (Towse 2010), but also the experts and/or peers who execute the selection of arts organizations into the subsidy system (Trimarchi 2003). Because issues such as artistic quality are hard to evaluate, information problems abound in the arts, which lie at the back of principal-agent problems (Towse 2010; Jensen and Meckling 1976). Furthermore, state intervention involves dilemmas, goal conflicts, and information asymmetries that can be expected when the evaluation criteria of different parties do not align well and may be tacit or difficult to measure (Van House and Childers 1994; Herman and Renz 2008; Turbide and Laurin 2009).

Recent empirical studies of the effectiveness of third-party assessment procedures in the arts lead to diverging conclusions. For example, while scholars observe that, in particular settings, the decision-making processes on subsidizing the arts still appear to “easily become enmeshed with political perspectives” (Shin and Kim 2018, 99), it is equally found that the installment of third-party assessments mitigates the “association between political factors and funding decisions” (Bertelli et al. 2014, 342). Also, while it is evidenced that a narrow range of voices from a powerful cultural elite still put their mark on decision making in the arts (Jancovich 2017), it is equally demonstrated that the privileged positions in those assessments appear to have shifted from experts who possess the capacity of aesthetic judgment to “those who can claim technical expertise” in political (evidence-based) decision making (Lewandowska 2017, 11). All in all, subsidy allocation by involving third parties is found to be characterized by “symbolic mechanisms of power” between assessors and the government (D’Andrea 2017, 247) and leading to “unanticipated outcomes and inconsistencies between rhetoric and conduct” (Zan et al. 2012, 76).

I study how government resources are assigned among diverse applicant organizations; i.e., the choices of funding (cf. Zan et al. 2012). Specifically, I examine to what extent governments’ policy goals—effectuated in criteria—actually play a role (or not) in the third-party assessments of theaters’ eligibility for subsidies.

A multi-method research methodology was implemented, consisting of content and statistical analyses of the third-party assessments of theater in two geopolitical entities in continental Europe: the Netherlands and the Dutch-speaking region of Belgium (Flanders). A first step of this mixed-methods approach entailed a qualitative content analysis of the third-party assessments of eighty-four Dutch and fifty-seven Flemish theater organizations. In a second step, I scrutinized if these assessors consistently apply *all*

government criteria to *all* of the applications. In a final step, I econometrically analyzed the output of the first step, trying to find evidence for either narrative: do third parties, in their assessments, strictly apply government criteria or do they at their own discretion deviate from them?

The baseline of my findings is that quality-maximizers stand a greater chance of receiving subsidies compared with attendance-maximizers or budget-maximizers (Hansmann 1981). This means that even if governments may spell out objectives, the arts organizations in the present study have no incentive to embrace government objectives in the areas of participation, efficiency, and entrepreneurship. They prioritize artistic objectives and are confirmed in this choice by the third parties that decide about public funding.

By shedding a light on third-party assessments invoking agency, I elicit a behavioral component within the subsidy allocation process. Other theoretical stances onto third-party involvement in policy could advance the understanding of how arts funding decisions are made as well. Being fundamental to public choice theory, principal-agent analysis could serve to analyze politicians' and bureaucrats' behavior (at times self-interested and motivated by other incentives than pursuing the public interest): seemingly anomalous behavior could be explained by "regulatory capture" by special interest groups such as the "cultural lobby" in the arts (Stigler 1971). Selection theory (Wijnberg and Gemser 2000) deliberates how three ideal types of selectors (market, peers, experts) are involved in value creation in competitive processes, particularly in markets of symbolic goods such as the arts. This could be extended by considering the role of a funding government that engages with peers and/or experts to make selections. Crowding theory (Frey 1999), with its articulation of the motivations that lead to particular behaviors, could also provoke a salient perspective on arts funding decisions.

### **Agency Theory: Goal heterogeneity and information asymmetry in arts funding**

The arts sector has been described as "a complex network that can be interpreted as a combination of different principal-agent relationships" (Trimarchi 2003, 373). Exchanges between principals (who determine tasks) and agents (who perform tasks) can be subjected to goal conflicts and information asymmetries, which is the baseline of Agency Theory (Jensen and Meckling 1976). On the one hand, many arts organizations are nonprofit, with proper goals. According to Hansmann's (1981) typology of nonprofit orientations, many organizations are quality-maximizers who consider an audience as a mere source of income that allows them to develop quality. Audience-maximizing organizations choose the level of quality that maximizes net revenue and seek to reduce ticket prices in order to attract still larger audiences. A third type are budget-maximizers, who simply seek to capitalize on the budgets they administer. On the other hand, public authorities also hold goals, and seek to justify the distribution of resources in line with those goals (Gray 2007). Throsby (1982, 246) has postulated that arts funding decisions can be comprehended as "involving essentially two maximands: participation rates, and the quality of the output." To this day, the most prominent motives

underlying public funding decisions on the (performing) arts boil down to these maxims, which have been labeled “arts provision” and “hegemony-distinction” (Feder and Katz-Gerro 2012). The former emphasizes the responsibility of government to provide arts to all its citizens, including the underprivileged, and underwrites the ideals of accessibility and the arts as a merit good (Netzer 1978); the latter prioritizes the “excellence” or quality of the arts (Caust 2017; Lamont 2012).

At the operational level, policymakers determine the strings attached to public funding: they prescribe how arts organizations should behave in order to obtain it (McDonald and Harrison 2002). These prescriptions are not always unequivocal; the “vagueness” around the meaning of policy goals has been brought to the fore, as well as the “gaps” in grant application processes (Caust 2017, 7). The conditions for public support have been found to be defined in terms of variables that can be easily observed, such as capacity utilization (Krebs and Pommerehne 1995). Nonetheless, public authorities also inform their funding decisions by the intrinsic quality of an organization’s provision (Schuster 1996) and outcomes rather than outputs (Wyszomirski 1998), dimensions which are hard to define and difficult to measure. This has led scholars to conclude that, compared with other areas of public intervention, arts funding entails challenges that originate in the content and range of intervention, and the criteria applied to justify funding decisions (Wyszomirski 1998; Mazza 2003).

In order to overcome substantive challenges and the asymmetrical distribution of information, typical in principal-agent relationships, a system of *third-party assessment* is often called into being. Proficient assessors then evaluate the performance of arts organizations, a process which can take place for different reasons, including monitoring, evaluating, and affecting their behavior (Schuster 1996). Panels often hold the authority to decide on subsidy allocation. Lewandowska (2017) argues that expertise has been installed at the heart of arts policy because of the increased pressures on measurement by society, and that such *expert power* may have deep implications on the nature of the arts’ provision. The decisions from these third parties can influence the exchanges in the arts in different ways, because they can be variously reliable, contingent upon these assessors’ (past) involvement in the arts (Trimarchi 2003). The efficacy of third-party assessment systems has been questioned, as they embroil human behavior that could be tainted by subjective biases, professional prejudices, self-interest, resistance to change, and ideology (Bertelli et al. 2014; Jancovich 2017; Lewandowska 2017). Worst-case scenario, “given the relevance of their evaluations for the determination of the economic value of art products, collusion between agents and critics/experts can occur, strengthening agents’ contractual power against principals, and introducing a further bias in the outcome of such complex exchanges” (Trimarchi 2003, 375). If this happens, arts funding can emanate “as an ideological apparatus, with a cultural policy that serves elite groups in articulating and guaranteeing their privileged position in society” (Feder and Katz-Gerro 2012, 374; Bourdieu 1984). A dominant role for an elite of experts in arts funding can lead to a substantial detachment of public policy from the preferences of a community (Mazza 2003; Lewandowska 2017). As such, arts policy may yield fertile grounds for stark tensions between interests that are more artistic vis-à-vis those that are more social, while at the same time it seeks to resolve them.

**Table 1.** The evaluation criteria for theater organizations in the Netherlands.

Criteria	Content analysis (summaries)	<i>n</i>	%
Artistic quality	craftsmanship, the skills of the team members, originality, the artistic signature, the vision of the artistic leader, distinguished, expressive power, it challenges the imagination, creation of meaningful performances	84	100
Profile and position	different, unique	84	100
(Inter)national reputation	outreach, distribution, dispersal	36	43
Collaboration, networking and the "chain idea"	the creation, production, programming and audience development, exemplified by collaborations	51	61
Audience outreach	audience development, education and marketing	54	64
Cultural entrepreneurship and management	market income, an entrepreneurial attitude	42	50
Diversity and interculturality	cultural diversity, the intercultural supply or program (part of profile and position)	22	26

*n* = Number of organizations to which the criterion is applied in the assessment.

% = Proportion of organizations to which the criterion is applied in the assessment.

## The institutional setting

In the Netherlands and Flanders,<sup>1</sup> most subsidies to arts organizations are allocated through (quasi-) arms-length systems that rely on third-party assessments for selecting cultural organizations and projects to be granted public means. Every four years, theaters<sup>2</sup> can submit an artistic plan that is assessed by a relatively autonomous panel of national members considered proficient. The criteria against which the applications are assessed originate in the ruling arts policy. Panelists know the criteria that they have to apply, but are not instructed on how to interpret the criteria or on any prioritization of criteria. Panelists make final decisions by consensus, in closed meetings, and are accountable to other panelists only (cf. D'Andrea 2017). They write detailed and reasoned reports of the assessments of organizations' plans against the criteria.

In the Netherlands, the arms-length Funds for the Performing Arts develops arts policy. In the post-crisis year of 2009, it came under the motto "more for less," implying a stringent selection of organizations to be supported, yet in combination with an increase in the average subsidy. Theaters' artistic plans were assessed against six criteria: (1) artistic quality (craftsmanship, originality, and expressive power); (2) profile and position; (3) (inter)national reputation; (4) connectedness; (5) audience outreach; and (6) cultural entrepreneurship (Table 1). In Flanders, the Arts Decree stipulated arts policy. If compliant with some formal requirements (e.g., a minimum proportion of market income), organizations were subjected to the third-party assessment that, in the period under scope, involved a dozen criteria: those that were used in the Netherlands, complemented with social value, collaborations, vision, realism, and feasibility (Table 2).

The Dutch panel consisted of eight members, all involved in one or more theaters, either artistically or in a management role: an actor, a dramaturge, a director, one theater programmer, three managers, and one head of finance. The twelve panelists in Flanders were theater critics (four), programmers (three), theater scientists (two), a scenarist, television producer, and museum director. Being acquainted with theater yet not employed by a theater, the panel in Flanders was exemplary as an *expert selection system*, while the Dutch panel was a *peer selection system* (Wijnberg and Gemser 2000; D'Andrea 2017).

**Table 2.** The evaluation criteria for theater organizations in Flanders.

Criteria	Content analysis (summaries)	<i>n</i>	%
Artistic quality	creations that are intriguing, innovative, strong, emotional, beautiful, relevant, original; theater that is honest, authentic; important, inventive, talented, devoted creators; a theater language that is expressive, unique, original, important, strong; devotion to the craft of theater; a dramaturgy that is strong/poor; texts that are original, made accessible, communicative, etc.	57	100
Profile and position	a sharp/strong profile, unique position, special, coherent, (no longer) relevant or unique, remarkable, original, obstinate, having played a (pioneering) role, having been part of . . . , one of the representatives of . . . , distinguishing, etc.	47	82
(Inter)national reputation	spreading, dispersal, dissemination, international operations, abroad, (limited) visibility, presence/absence (in specific countries, in national theaters . . . ), touring (within a country, around national theaters . . . ), traveling to, (inter)national reputation, increase of attraction, disposing of a network of European partners, mapping internationally, crossing regional/national borders, etc.	53	93
Collaboration, networking and the "chain idea"	collaboration, alliances, co-productions, synergies, network	52	91
Audience outreach	target groups, audience, arts education, public relations, audience recruitment/growth	49	86
Regional added value	regional meaning/significance, regional recognition, radiance, embeddedness, anchoring	28	49
Diversity and interculturality	new Belgians, multicolored and multilingual environment, non-Western cultures, diverse backgrounds	40	70
Social value	social-artistic activities/dynamics, social importance, socially critical and political themes/language/voice, social engagement	38	67
Long-term vision	(lack of) vision, plans, policy	22	39
Realism	(not) realistic	11	19
Feasibility	(not) feasible	50	88

## Empirical investigation

### *Methodology and employed data*

The multi-method research methodology applied in the present study reflects an "explanatory sequential design" that includes a qualitative and quantitative data analysis stage (Creswell and Plano Clark 2011). Content analysis is applied to examine how panels interpret the assessment criteria. Statistical analyzing techniques are used to assess if the criteria actually matter to the panels' decisions.

The data are the reports created by the panels of the eighty-four Dutch and fifty-seven Flemish theater organizations that applied for a subsidy for the terms 2009–2012 and 2010–2013, respectively.<sup>3</sup> Using two separate samples that bear significant similarities (regarding the cultural policy system, theater traditions, language, etc.) allows us to reflect on the singularities within each sample and patterns across both samples. The samples represent the entire "population" of theater organizations that applied for subsidies, and are sufficiently large to allow for statistical analyses, yet not too outsized for content analysis. The reports contain a decision, and an assessment of the applicant organization's artistic plan against the criteria of the government. Using content analysis, researchers can analyze and quantify the presence of certain themes within textual data (Krippendorff 1980). The criteria were the



**Table 3.** Means, standard deviations, and Spearman's rho correlations among all variables in the Netherlands.

Variables	Mean	S.D.	1	2	3	4	5	6	7	8
Independent variables										
1 Artistic quality	2.51	.844	1.000							
2 Position	.33	.473	.528**	1.000						
3 Reputation	.43	.498	.611**	.340**	1.000					
4 Audience	.66	.477	.356**	.121	.309**	1.000				
5 Diversity	.27	.446	.341**	.220*	.257*	.262*	1.000			
6 Chain idea	.63	.485	.102	.209	.195	.094	.117	1.000		
7 Cultural entrepreneurship	.35	.481	.406**	.350**	.290**	.264*	-.045	.244*	1.000	
Dependent variable										
8 Judgment	.50	.503	.887**	.597**	.715**	.463**	.385**	.253*	.485**	1.000

\*\* Correlation is significant at the 0.01 level (two-tailed).

\* Correlation is significant at the 0.05 level (two-tailed).

starting point of the coding process by two researchers with personal and professional interests in theater production (including the author). We expected that panels would use a domain-specific vocabulary to assess arts organizations and their production, as in science, where notions such as “original,” “innovative,” “important,” or “significant” have been found to express valuation (Guetzkow, Lamont, and Mallard 2004); or for movies, where quality is expressed in terms of “subtlety,” “realism,” “credibility,” “plausibility,” and “complexity” (Bielby, Moloney, and Ngo 2005). The first step was to recognize the manifestation of the criteria in these reports. During this process, dictionaries were developed (summarized in Tables 1 and 2). The second step of the coding entailed a quantitative approach to content analysis, by assigning numeric values to the content (Riffe, Lacy, and Fico 2005). In this manner, we generated two types of variables that were included in statistical estimations: an outcome variable, and two sets of independent variables (Tables 3 and 4). The outcome variable is the funding decision, or the result of the panels’ assessment. In the Netherlands, the assessments lead to a plain *positive* or *negative* judgment on each plan, which was coded into a dummy variable (1 = positive; 0 = negative). In Flanders, the panel’s assessments result in a range of values between *very poor* and *very good*, which was coded as a 5-point Likert scale. Additionally, the coding resulted in two sets of dummy variables for each organization. A first dummy variable ( $x_1$ ) indicates the presence (1) or absence (0) in the report of the assessment against a particular criterion;  $x_1$  thus expresses if the panel assesses an organization in light of a specific criterion or not. A second dummy variable ( $x_2$ ) expresses if the panel is positive about an organization against a criterion (1), or negative or silent (0). A value of 1 for  $x_2$  can therefore be interpreted as a vindicated reason for government support, whereas 0 implies that the panel is not convinced of the organization’s qualities on a specific criterion or believes that it is not worth mentioning in its assessment. One exception in the coding process was made: the thicker descriptions of organizations’ artistic quality were coded on a scale of five values.<sup>4</sup> Control variables are purposely not included in the statistical models, because the goal is not to explain or predict all of the different qualities on which subsidy allocations are based; the goal is to test to what extent panels take into account the prescribed criteria in their decisions.



Table 4. Means, standard deviations, and Spearman's rho correlations among all variables in Flanders.

Variables	Mean	S.d.	1	2	3	4	5	6	7	8	9	10	11	12
Independent variables														
1 Artistic quality	3.31	1.158	1.000											
2 Position	.66	.479	.572**	1.000										
3 Reputation	.74	.442	.616**	.566**	1.000									
4 Audience	.84	.365	.125	.090	.291*	1.000								
5 Diversity	.52	.504	.155	.243	.217	.062	1.000							
6 Vision	.31	.467	.252	.330*	.311*	.082	.201	1.000						
7 Feasibility	.69	.467	.528**	.533**	.455**	.021	.396**	.208	1.000					
8 Realism	.19	.395	.206	.166	.185	.086	-.061	.056	.039	1.000				
9 Collaboration	.69	.467	-.211	-.173	-.056	.021	.023	-.033	-.208	-.341**	1.000			
10 Regional value	.47	.503	-.008	.023	-.238	-.173	.141	.121	.178	-.099	-.046	1.000		
11 Social	.57	.500	.021	.174	.122	.204	.274*	-.093	.093	-.023	-.057	.114	1.000	
Dependent variables														
12 Judgment	3.53	1.341	.779**	.662**	.543**	.144	.307*	.268*	.652**	.250	-.290*	.089	.109	1.000

\*\*Correlation is significant at the 0.01 level (two-tailed).

\*Correlation is significant at the 0.05 level (two-tailed).

## Results

The multi-method research entailed three stages. First, the qualitative content analysis identifies panels' application of the assessment criteria. The maximands that habitually underlie arts funding decisions can be recognized: next to the quality of the output and the quantity of participation (cf. Throsby 1982), also the quality of participation (including diversity) and the quality of management are being assessed. The vocabulary of both panels is partially similar and partially different (Tables 1 and 2): the (expert) panel in Flanders uses more variation in its language (for example, in assessing artistic quality), while the language of the Dutch (peer) panel is parsimonious and closer to the original wording of the criteria. An organization's profile and position are conscientiously being considered in the assessments, which creates the impression that panels perceive it as a responsibility to compose an artistically diverse landscape of complementary organizations. Additionally, in the Netherlands (not in Flanders), the panel judges the trustworthiness of more than half of the applicants ( $n = 43$ ). For example, the Dutch panel has trust in a theater company that has progressed quickly, or in a new artistic director. It also distrusts organizations, as illustrated by a typical quote:

[i]n its future plans, the company does not advance a clear vision on the artistic development or the themes it would like to address. That is why the committee does not have sufficient trust in the expected quality of the plays that the company wants to produce in the upcoming years.

The second stage addressed how far panels apply government's criteria, with counts per criterion (reported in Tables 1 and 2). Although governments in the Netherlands and Flanders put forward a list of criteria that applications have to meet, panels prioritize criteria. Each plan/organization is assessed on its *artistic quality*. All Dutch organizations are assessed on their *profile or position*; in Flanders four out of five are. This criterion is subject to different interpretations: organizations can have geographical, unique, prominent, pioneering, or visible positions, and strong (important, remarkable key players) or niche (innovative, pioneering) profiles. Related is *reputation* (past performance), applied in ninety-one percent of the Flemish assessments. The criteria that relate to the audience are regularly used, but not for the assessments of all organizations: *diffusion* (eighty-four percent in Flanders; sixty-four percent in the Netherlands), *diversity* (sixty-nine percent in Flanders; twenty-six percent in the Netherlands), and *social value* (sixty-six percent in Flanders). Management qualities, as a third pillar in the funding decisions, remain in the background. In the Netherlands, only half of the organizations are evaluated on their entrepreneurial qualities, while *long-term vision* (thirty-eight percent) and *realism of a growth path* (nineteen percent) are underemphasized in the Flemish evaluations. In sum, *artistic quality* and *reputation* (based on past performance) are at the center of panelists' attention, to the detriment of qualities more related to the actual content of the application and to future plans. This is a finding in line with Gorman (2007) and Guetzkow, Lamont, and Mallard (2004), who highlight similar tendencies in evaluations in science.<sup>5</sup>

In the third stage, I examined the actual determinants of arts funding decisions.<sup>6</sup> Statistical estimations can elicit whether panels invoke in their decisions all of the government's criteria. In theory, this should be the case, because the funding bodies present the criteria as a non-hierarchical and non-exclusive list that applicants all need to

**Table 5.** Multiple logistic regression for Dutch sample.

Multiple logistic regression Variables	<i>n</i> = 84 B
Constant	−7.920***
Artistic quality	8.740***
Profile and position	1.875
(Inter)national reputation	2.393*
Chain idea	1.183
Audience outreach	1.780
Cultural entrepreneurship	−0.612
Diversity and interculturality	0.435

Likelihood ratio = 90.749\*\*\*; *df* = 7.Wald = 22.091\*\*; *df* = 7.\**p* < .05; \*\**p* < .01; \*\*\**p* < .001.**Table 6.** Ordinal logistic regression for the Flemish data.

Ordinal logistic regression Variables	<i>n</i> = 57 Logit
Threshold (decision = 1)	−3.963
Threshold (decision = 2)	0.618
Threshold (decision = 3)	2.319
Threshold (decision = 4)	6.149
Artistic quality	11.669***
Profile and position	−2.373**
(Inter)national reputation	1.166
Collaboration and networking	0.313
Audience outreach	−0.327
Regional added value	−0.485
Diversity and interculturality	−0.367
Social value	−0.558
Long-term vision	−0.797
Realism	−1.796*
Feasibility	−0.918

Chi<sup>2</sup> = 83.561\*\*\*.Pearson 108.326; *df* 209 (*P* = 1.000).pseudo R<sup>2</sup>: Cox and Snell = 0.7630; Nagelkerke = 0.8090.\* *p* < .05; \*\**p* < .01; \*\*\**p* < .001.

address. The expected estimates would then be significant and of a similar magnitude for all variables included.

For the analysis of the Dutch data, a multiple logistic regression model was run to test the probability of a positive assessment by the panel as a function of the government's criteria. In order to overcome a separation problem with the variable "artistic quality" (a result of the predictableness of the outcome value (1 or 0) for almost each value of the independent variable; see the [Online Appendix](#)), a corrective method was applied (Firth 1993; Ploner et al. 2010). Estimates are reported in [Table 5](#). Only the positive effect of *artistic quality* on the outcome decision is significant up to the 0.001 level; the effect of *reputation* is just below the threshold level for significance of 0.05; no other variable has a significant effect.

The situation in Flanders was tested with an ordinal logistic regression model, an extension of the simple logistic regression model adequate for analyses when the outcome variable comes on a Likert scale. Remember that panels do not decide in terms of pass/fail, but assign a value ranging between "very poor" and "very good." The model estimates the probability of membership in a particular category, based upon values for

the independent variable in relation to values of the discrete thresholds of the dependent variable (from 1 to 5) (Cohen et al. 2003). Some zero cell counts were present, with symptoms similar to data separation, which occur when the dependent variable is invariant for a value of a categorical independent variable. However, if a pattern underlying the values can be assumed to fill in the blanks, and if the major concern of the analysis is the overall relationship between a set of independent variables and a dependent variable rather than obtaining individual values (as is the case), it is suggested that the results are accepted, only with some uncertainty about the coefficient values (Menard 2002). The estimates of the ordinal logistic model are reported in Table 6. Three variables appear to have significant positive effects on the outcome of the assessments: *artistic quality*, *position*, and *realism*.<sup>7</sup>

## Discussion

Third-party assessments installed by governments judge the worthiness of applicants to receive public funding in the arts. The empirical analyses show the predominance of criteria that reflect *quality* and *reputation*, and the redundancy of criteria that reflect *social objectives* and *efficiency* (feasibility, collaboration, realism, entrepreneurship, and the integration in a production chain). Governments may expect arts organizations to break down the barriers in society and to engage with access maximization, in line with the merit of a good idea. However, panels that decide on grant allocation are inclined to prioritize *artistic quality*, regardless of their composition of peers or experts. In Flanders and the Netherlands, a focus on the artistic side rather than the social side of theater is not unexpected. Between 1980 and 2000, Flemish theater gained a strong artistic reputation, while attendance declined (Werck and Heyndels 2007). Between 1965 and 2002, the number of theater performances in the Netherlands doubled while participation rates dropped by forty percent (van Klink 2005), which suggests that the maximand was the artistic supply.

The importance of the findings lies primarily in the framing of an assessment procedure as developed by one party—government—yet executed by a third party—a panel. In the following, I discuss whether experts and peers can be expected to be loyal agents of the government (amending its logic), or rather appear as defenders of the interests of the arts world (prioritizing this logic).

## Agency problems in arts funding

Agency Theory postulates that when the desires or goals of a principal and an agent conflict, and when it is difficult for the principal to verify what the agent is actually doing, agency problems can arise (Jensen and Meckling 1976). Arts funding decisions enact distinct agency relationships: a principal (government) is conducive to supporting several agents in the performance of a task (theaters) (Towse 2010), the selection of whom is executed by yet another agent (panels) (Trimarchi 2003).

First, central governments, as in the Netherlands and Flanders, engage in subsidy relationships with nonprofit arts producers for providing a cultural supply. The goals of governments as principals and theaters as agents may not just be conflicting and manifold, but policy goals are at times unclear and unstable. To start with, there are already

tensions within an arts policy that seeks to foster the quality of the artistic production and a more social culture policy aimed at promoting participation (Gray 2007). Policymakers rarely, if ever, succeed in bridging the gap between these two goals, let alone in developing adequate instruments that serve to link these objectives (van Klink 2005). This political problem is passed onto nonprofit arts producers on the lookout for subsidies: by imposing criteria on their operations that simultaneously address quality, social goals, and entrepreneurship, governments confront arts producers with many, and possibly conflicting, requirements. As those organizations root within an arts community that is typified by a strong commitment to shared artistic values, they allegedly prioritize the quality of their creations. As such, the imperatives of the government—advocating the increase of social welfare but impregnated by control mechanisms and efficiency concerns—and those of the arts community—advocating the persistence of being able to advance a high-quality artistic offer and the status of its members—may be hard to reconcile. This is the first condition leading to an agency problem. Furthermore, in the absence of a market test, arts organizations tend to accrue new imperatives without discontinuing other activities, which is a manifestation of *goal accretion*, found to be typical for nonprofit and public sector organizations (Van House and Childers 1994). At the basis of such behavior may lie phenomena that were identified in the Netherlands: *policy inflation*, or the constant renewal or rephrasing of policy aims because of the fact that, every four years, new politicians seem reluctant to endure the work of their predecessors; and *process inflation*, or the increasing bureaucratization and complexity of policy processes for the sake of transparency (van Klink 2005). Adequately monitoring arts-developing agents then becomes a challenge.

In the second principal-agent relationship between governments and third-party assessors, an agency problem is also present because of goal conflicts and the lack of transparency of the procedures. Although governments set the parameters for granting decisions, our analyses clearly show that the actual assessments deviate from these prescriptions. I suggest that panels have a dual commitment to both the government that installed them and the artistic community that counts on them. Our case may be illustrative of an instance where professionals “lay successful claim to normative dimensions of political processes” (Townley 1997, 280) by creating the impression of taking into account many of the principal’s criteria (step 2 of the analysis), whereas only a subset of those criteria actually matter in the funding decisions (step 3). Because of their artistic commitments, panels write subsidy assessments that more resemble justifications *ex post*, based on the previous realizations of arts community members and centered on reputation and trust, than real assessments of an organization’s future plan against a bundle of criteria (cf. the Oppenheim effect; Gorman 2007). Yet, this paradox may not be clear to the principal.

The result is that a third agency relationship dominates: panels act as agents of the art world. While panels (should) formally act to serve the interest of their contractual principal (government), in practice they operate as hidden agents of the art world by making decisions supportive to its institutional logic (Friedland and Alford 1991). That is, the assessments apply the few quality-based criteria deemed important by a strong arts community, and trust, or “the willingness of a party to be vulnerable to the actions of another party (...) irrespective of the ability to monitor or control that other party” (Mayer, Davis, and Schoorman 1995, 719). As an emotional expression of worthiness,

trust is invoked in over half of the Dutch assessments and strongly correlates to arts funding decisions ( $r = 0.80$ ). All of this suggests that panels serve the interests of the art world and operate as gatekeepers that funnel state money to arts producers according to the art world's logic rather than that of government (Feder and Katz-Gerro 2012).

## Conclusion, limitations, and implications

Although governments may try to impose concerns for quality, efficiency, entrepreneurship, attendance, and the inclusion of diverse groups on theaters, I reveal that such a bundle of policy goals are not at all times met as a result of ineffective procedures that involve agents with logics different from that of principals. Based on qualitative and quantitative content analyses, followed by a statistical estimation, I examined to what extent third-party assessments of subsidy applications take into account the criteria of governments. Such a behavioral approach to third-party assessments in subsidy allocation brings to the fore that panels endorse the *art for art's sake principle* (Caves 2000) in theater, while agency problems arise as a consequence of goal conflicts and information asymmetries between all parties involved (governments, panels, and theater producers). I argue that the relationship between panels and arts organizations can be considered as another principal-agent relationship, next to the ones that have been identified before, between governments and theaters (Towse 2010) and governments and panels (Trimarchi 2003).

A limitation of this study may be that my analysis provides just a snapshot of arts funding decisions in a given context and time. Other recent studies endorse that panels' (positive) biases and prejudices are not exceptional (Lewandowska 2017) and that previous merits matter a lot (Zan et al. 2012). The fact that the findings are similar for two distinct settings increases their external validity and suggests that the phenomenon may apply elsewhere as well. However, the findings stand in contrast with recent research in Australia, where the "quality of the arts practice and the track record of the company" were deemed less important than a good business plan (Caust 2017, 8), or in Canada, where the peer review process was found to be shaped by government's economic arguments (D'Andrea 2017). The diverging findings across the aforementioned studies may actually substantiate that principal-agent relationships are at play and indicate either procedural or institutional differences across settings and countries.

A more fine-grained understanding of the origins of agency problems could benefit from including the roles of embedded agency and the situated nature of social action (as deliberated in the institutional logics perspective) in the analysis of principal-agent relationships. While the government and the professions have been identified as the primary shapers of institutional forms (DiMaggio and Powell 1983), the logics that such powerful actors attain may be distinct, but still able to co-exist (Goodrick and Reay 2011). When panels, in their assessments, seem to meticulously take into account government's objectives, the procedure creates the impression that a professional and a state logic are not in conflict. Yet, my statistical analyses reveal that artistic quality is the only significant determinant of panels' decisions, in line with the logic of the artistic community. As such, an Agency Theory lens can increase the understanding of how agents navigate institutional complexity by engaging in efforts to manage goal conflicts

and reshape the logics in their environments (Greenwood et al. 2011; Thornton, Ocasio, and Lounsbury 2012). In the opposite direction, a discrepancy between two institutional logics may provoke the exposed inefficiencies in the arts funding process, and lead to agency problems. Taken together, one theoretical implication that arises from this study is the need for situating principal-agent relationships at a field level, which opens the door for the inclusion of an institutional logics perspective on the social relationships, procedures, and behaviors in artistic settings.

Practical implications that emerge from this study relate to the undesirable consequences of agency in arts funding. Incumbent organizations are privileged by the repeated allocation of funding, while first-time submitters are put at a disadvantage, which could eventually hamper innovations (Zan et al. 2012; Caust 2017; D'Andrea 2017). Additionally, the social function of the arts, including its potential to attenuate social inequality, is cast aside by those grant allocators who prioritize artistic quality. This study establishes that those actors who control the key functions of the system set the cognitive and technical norms for artistic production, on the basis of which they allocate resources or “rewards” (Crane 1976; Bourdieu 1993). In the funding system described here, the ability of governments to reach their objectives is heavily affected by the way in which procedures are carried out in practice (Zan et al. 2012). The mere recognition of third-party assessments being administrative processes and procedures that involve “boundedly rational human decision makers” (Woronkiewicz et al. 2019, 364; D'Andrea 2018), who rely on special interests and heuristics related to prior knowledge (Gorman 2007), could already lead to overcoming procedural weaknesses and optimizing arts funding systems.<sup>8</sup>

## Notes

1. Cultural policy in Belgium is organized at the community/regional level, hence the choice for Flanders.
2. In this institutional setting, these included theater houses and touring companies.
3. Shared with the researcher upon request.
4. A value of  $AD_{UL} ADM(J) = 0.43$  for the Average Deviation Index (Burke and Dunlap 2002) suggested “acceptable” inter-rater agreement on *artistic quality*. If both researchers rated differently, values were averaged.
5. The Oppenheim effect in peer-reviewing processes by scientific journals describes the phenomenon that authors and not manuscripts are the major determinants of the quality of submissions (Gorman 2007).
6. See the Online [Appendix](#) for detailed methods.
7. The critical assumption underlying models of proportional odds is verified by a test of parallel lines that, with a  $p$ -value of 0.518, suggests a meaningful sequential order underlying the dependent variable (reference category  $Y = 5$ ).
8. Dutch and Flemish arts funding systems have been transformed in recent years.

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## ORCID

Ellen Loots  <http://orcid.org/0000-0003-1317-1477>

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